

Message Text

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PAGE 01 TOKYO 00851 01 OF 02 211057Z

13

ACTION SS-20

INFO OCT-01 EUR-25 EA-11 ISO-00 EB-11 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 IO-14

SCI-06 FEA-02 INT-08 OMB-01 TRSE-00 DRC-01 NEA-10

AF-10 /162 W

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 9395

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 851

STATE ALSO FOR T/IEP

EO 11652: GDS

TAGS: ENRG JA

SUBJ: ENERGY: PREPARATIONS FOR INTERNATIONAL ENERGY CONFERENCE

REF: A. STATE 012410 B. TOKYO 601

1. INTRODUCTION: GOJ VIEWS ENERGY CONFERENCE AS AN ESSENTIAL

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PAGE 02 TOKYO 00851 01 OF 02 211057Z

AND TIMELY ATTEMPT TO REESTABLISH SOME SEMBLANCE OF NORMALCY

IN WORLD ECONOMIC ORDER. AT THIS POINT, THE GOJ IS ACTIVELY CATALOGUING ISSUES AND PROBLEMS IT WOULD LIKE TO SEE RAISED AT ENERGY CONFERENCE AND INTER AGENCY MEETINGS ARE SCHEDULED WITHIN NEXT SEVERAL DAYS TO DEVELOP CONCRETE POLICY LINES. THOUGH FINAL POSITIONS ARE NOT YET CLEAR, IT IS EVIDENT THAT GOJ IS NO LONGER TOTALLY PREOCCUPIED WITH IDEA OF AVOIDING PRODUCER-CONSUMER CONFRONTATION. IT SHOULD BE STRESSED THAT GOJ REMAINS VERY CAUTIOUS AND CONCERNED ABOUT PRODUCER GOVERNMENT REACTIONS TO ANY STAND IT MIGHT TAKE, BUT GOJ NOW APPEARS TO BE FOCUSSED ON TACTICS TO BE USED IN AVOIDING APPEARANCE OF CONFRONTATION. LESSENER CONCERN ABOUT AVAILABILITY OF OIL SUPPLIES (ONLY 10 PERCENT LESS OIL THAN PLANNED IS EXPECTED TO BE IMPORTED IN JANUARY) AND INCREASED CONCERN ABOUT PRICES HAS PRODUCED AN ATTITUDE MORE INCLINED TOWARD CONSUMER COOPERATION. GOJ, HOWEVER, WILL CERTAINLY CAREFULLY PROTECT ITSELF EVERY STEP OF THE WAY.

2. BASED ON RECENT DISCUSSIONS AT FONOFF AND MITI, FOLLOWING ARE OBJECTIVES FOR ENERGY CONFERENCE THAT APPEAR TO BE EMERGING WITHIN GOJ:

A) DEVELOPMENT OF STABLE RELATIONSHIP BETWEEN PRODUCERS AND CONSUMERS. IN DEVELOPING THIS RELATIONSHIP, GOJ CONSIDERS TRADE, MONETARY, INVESTMENT, AND ENERGY PROBLEMS AS INTER RELATED AND WILL PROBABLY WISH TO DISCUSS INTERCONNECTIONS AT CONFERENCE. FONOFF, HOWEVER, VIEWS ME POLITICAL PROBLEM AS DISTINCTLY SEPARATE ISSUE WHICH SHOULD NOT BE DEALT WITH AT CONFERENCE. IN CONSIDERING ECONOMIC PROBLEMS, GOJ RECOGNIZES THAT THERE ARE LONG AND SHORT TERM ISSUES, WHICH ALSO ARE INTERCONNECTED. ON BASIS THEIR INTERPRETATION OF KISSINGER'S PILGRIM SOCIETY SPEECH, FONOFF OFFICIALS HOWEVER SEEM TO FEEL THAT U.S. MORE INTERESTED IN LONG TERM ISSUES. FONOFF BELIEVES CONFERENCE SHOULD TRY TO SETTLE SHORT TERM ISSUES AS WELL.

B. OIL PRICE STRUCTURE. PRICE ISSUE IS CERTAINLY HIGH ON GOJ'S LIST OF GOALS. FONOFF SOURCES NOTE THAT OPEC SECRETARIAT HAS STUDIED MECHANISMS FOR OIL PRICES. CONSUMING COUNTRIES SHOULD ALSO CAREFULLY DEVELOP AN OIL PRICE SCHEME SUITABLE FOR FUTURE WORLD ECONOMY. THIS WILL BE DELICATE
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PAGE 03 TOKYO 00851 01 OF 02 211057Z

FOR GOJ IN THAT IT WILL WISH TO AVOID IMPRESSION THAT IT IS TRYING TO DICTATE PRICES TO PRODUCERS. HOWEVER, GOJ CLEARLY HAS NO INTENTION OF IGNORING PRICE PROBLEMS BECAUSE THEY ARE SENSITIVE. IN ADDITION, MITI APPEARS TO BE ANXIOUS TO RAISE MAJORS' PRICING POLICIES IN CONNECTION WITH ANY OVERALL PRICE DISCUSSION. FONOFF ON OTHER HAND SEEMS MORE INCLINED TO LEAVE THIS TO TASK FORCE(S).

C. INVESTMENT. FONOFF BELIEVES DISCUSSIONS AT CONFERENCE MUST FOCUS ON ECONOMIC RATHER THAN POLITICAL INCENTIVES TO INCREASED OIL PRODUCTION. MUCH OF COURSE DEPENDS ON HOW PRODUCERS WANT TO INVEST THEIR MONEY, E.G. IN DOWNSTREAM FACILITIES, IN NEW FORMS OF ENERGY, ETC. HOWEVER, MERITS AND DEMERITS OF VARIOUS TYPES OF INVESTMENT FROM CONSUMER COUNTRY POINT OF VIEW SHOULD BE DISCUSSED.

D. FONOFF ALSO BELIEVES THAT PROBLEMS OF ENERGY CONSERVATION AND COOPERATION IN DEVELOPMENT OF NEW FORMS OF ENERGY MERIT DISCUSSION. ON OTHER HAND, IT DOES NOT BELIEVE THAT DISCUSSION OF OIL IMPORT SHARING WOULD BE USEFUL.

E. POST CONFERENCE SCENARIO. FONFF OFFICIALS NOW APPEAR TO BE THINKING IN TERMS OF ONE TASK FORCE AT PERHAPS VICE-MINISTERIAL LEVEL WITH PERHAPS SEVERAL WORKING PARTIES REPORTING TO IT. IN SUCH GROUPS, FOR EXAMPLE, NEW BIDDING SYSTEMS FOR OIL MIGHT BE DISCUSSED.

F. FONOFF ALSO CONSIDERS FOLLOW-UP MEETINGS BETWEEN CONSUMERS AND LGCS IN PREPARATION FOR MEETINGS WITH PRODUCERS TO BE IMPORTANT, AND IN THIS CONNECTION, IT CLEAR FOR POLITICAL REASONS THAT GOJ WOULD LIKE TO SEE ONE OR PERHAPS TWO OF ASEAN COUNTRIES INVITED.

3. SENSITIVITIES: AT ENERGY CONFERENCE, GOJ WILL BE VERY SENSITIVE TO POSSIBILITY OF ALIENATING ARAB PRODUCERS WHOM THEY HAVE CAREFULLY CULTIVATED IN PAST SEVERAL MONTHS. MOST EFFECTIVE WAY OF DEALING WITH THIS WOULD BE TO EMPHASIZE SOMETHING JAPANESE ARE BECOMING INCREASINGLY AWARE OF, I.E. THAT GOOD RELATIONS BETWEEN JAPAN AND ARAB PRODUCERS NOT SUFFICIENT TO RESTORE ORDER TO CHAOTIC WORLD OIL, TRADE AND MONETARY SYSTEMS WITH WHICH JAPAN VITALLY CONCERNED. SECOND SENSITIVITY
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PAGE 04 TOKYO 00851 01 OF 02 211057Z

IS ROLE OF INTERNATIONAL MAJORS. JAPANESE CLEARLY UNHAPPY THAT MAJORS HAVE RAISED PRICES TO NEARLY \$9 LEVEL AND DO NOT FEEL PRESENT TAX AND ROYALTY CHARGES JUSTIFY THIS LEVEL. THEY ALSO LESS THAN PLEASED THAT SUBSTANTIAL AMOUNTS OF IRANIAN AND INDONESIAN OIL WERE RECENTLY DIVERTED FROM JAPAN. EMBASSY BELIEVES THAT BEST APPROACH TO THIS PROBLEM IS INDICATING THAT USG PREPARED DISCUSS OIL PRICE ISSUE WITH U.S. MAJORS AND WILL URGE RESTRAINT IN PRICES.

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PAGE 01 TOKYO 00851 02 OF 02 211138Z

13

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C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 851

4. IMPACT ON ECONOMY: OIL CRISIS HAS RESULTED IN SHARP DOWN-
WARD REVISION OF GNP GROWTH ESTIMATES FOR COMING JAPANESE
FISCAL YEAR (APRIL 1, 1974 THROUGH MARCH 31, 1975). CURRENT
GOVERNMENT ESTIMATE IS FOR GNP GROWTH OF 2.5 PERCENT IN REAL
TERMS. GOJ ESTIMATES ARE TRADITIONALLY CONSERVATIVE AND
EMBASSY BELIEVES THAT ACTUAL GNP GROWTH WILL BE IN EXCESS OF
OFFICIAL PROJECTIONS. OIL CRISIS HAS ALSO ADDED TO JAPANESE
PROBLEMS IN AREA OF INFLATION. THIS TOPIC IS MOST SENSITIVE
POLITICAL ISSUE NOW FACING RULING LIBERAL DEMOCRATIC PARTY.
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PAGE 02 TOKYO 00851 02 OF 02 211138Z

ECONOMIC PLANNING AGENCY NOW ESTIMATES THAT INCREASED OIL

COSTS WILL FORCE CONSUMER PRICE INDEX UP BY ADDITIONAL 4.7 PERCENT IN COMING FISCAL YEAR AND WILL ADD 5.2 PERCENT TO WHOLESALE PRICE INDEX. ASSUMPTIONS BASED ON OIL PRICE OF \$8 TO \$9 PER BARREL. GOJ NOW EXPECTS CONSUMER PRICES TO RISE 9.6 PERCENT AND WHOLESALE PRICES TO RISE 14.6 PERCENT IN COMING FISCAL YEAR. INFORMED SOURCES DO NOT FORESEE AN UNACCEPTABLE INCREASE IN UNEMPLOYMENT AS RESULT OF OIL CRISIS, WITH MOST PREDICTING INCREASE FROM PRESENT 1.4 PERCENT LEVEL TO AROUND 2.4 PERCENT. SHORTAGES HAVE OCCURRED IN SOME SECTORS AND HAVE BEEN AGGRAVATED BY SPECULATIVE HOARDING IN WHOLESALE SECTOR AND SOME PANIC BUYING BY CONSUMERS. LATTER PHENOMENON APPEARS RESULT FROM FEAR OF ACTUAL SHORTAGES AND NEAR CERTAINTY THAT PRICES WILL INCREASE IN FUTURE. AS COULD BE EXPECTED, SHORTAGES OF RAW MATERIALS HAVE DEVELOPED IN THOSE INDUSTRIES RELYING ON OIL OR OIL-BASED PRODUCTS FOR FEEDER STOCKS, BUT THESE ARE EXPECTED TO EASE AS OIL DELIVERIES RETURN TO MORE NORMAL LEVELS AND FISCAL MONETARY POLICIES REDUCE OVERALL DEMANDS. WITH INCLUSION OF INCREASED OIL BILL OF \$15 BPT 15 BILLION, CURRENT ESTIMATES ARE THAT JAPAN WILL STILL CONTINUE TO RUN A TRADE SURPLUS IN THE COMING YEAR OF \$3.4 BPT 3.4 BILLION.

5. DOMESTIC POLITICAL IMPACT - DOMESTICALLY OIL SHORTAGE COULD NOT HAVE COME AT A LESS PROPITIOUS TIME FOR RULING LIBERAL DEMOCRATIC PARTY. ELECTIONS OF ONE-HALF OF MEMBERS OF UPPER HOUSE, WHERE LDP AT PRESENT ENJOYS ONLY SLIM MAJORITY, ARE SCHEDULED FOR JUNE OF 1974. EVEN BEFORE OIL CRISIS, THIS ELECTION WAS BEING VIEWED AS MOST SERIOUS TEST TO FACE LDP CONTROL OF GOVERNMENT IN PAST TWENTY-YEAR PERIOD. MAJOR FACTOR IN LDP ABILITY TO HOLD ON TO CONTROL OF UPPER HOUSE WILL BE SUCCESS OF GOVERNMENT IN COPING WITH INFLATION WHICH HAS BEEN RAPIDLY ERODING PURCHASING POWER OF AVERAGE JAPANESE WORKER. OIL CRISIS, IN PARTICULAR PRICE INCREASES, BY ADDING ADDITIONAL INFLATIONARY PRESSURE, SLOWING GROWTH OF ECONOMY, ADDING EVEN marginally TO UNEMPLOYMENT, AND FORCING TIGHT MONEY POLICY AND REDUCED BUDGET OUTLAYS IN PUBLIC SECTOR, HAS GENERATED REAL SENSE OF CRISIS IN LDP. IN SUCH A SITUATION, IT CAN BE EXPECTED THAT DOMESTIC POLITICAL CONSIDERATIONS WILL PLAY AN INCREASINGLY LARGER ROLE IN JAPAN'S LSEWHCOYATION OF COURSES TO BE FOLLOWED IN MONTHS AHEAD.

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PAGE 03 TOKYO 00851 02 OF 02 211138Z

6. IMPACT ON INTERNATIONAL POSTURE: THE OIL CRISIS HAS, OF COURSE, HAD AN IMPORTANT IMPACT ON JAPAN'S INTERNATIONAL POSTURE. PRIOR TO OAPEC'S OCTOBER INVOCATION OF ITS OIL WEAPON, JAPANESE POLICY IN THE MIDDLE EAST CAN BEST BE DESCRIBED AS MAINTAINING LOWEST POSSIBLE POSTURE. ADVENT OF OIL CRISIS HAS RESULTED IN POLICY SHIFT TO MORE POSITIVE SUPPORT OF ARAB POSITION AS SHOWN BY GOJ ANNOUNCEMENT OF NOV 22. IN ADDITION, JAPAN HAS BEGUN TO DEVOTE MORE ATTENTION TO WAYS

IN WHICH IT CAN PLAY A PART IN ECONOMIC DEVELOPMENT IN MIDDLE EAST. COUNTRIES IN AREA HAVE BEEN VISITED BY DEPUTY PRIME MINISTER MIKI AND BY MINISTER FOR INTERNATIONAL TRADE AND INDUSTRY NAKASONE. CURRENTLY SPECIAL ENVOY ZENTARO KOSAKA, FORMER HEAD OF THE ECONOMIC PLANNING AGENCY, IS IN MIDDLE EAST. JAPANESE EFFORTS IN AREA HAVE TWO PRONGS; AID TO LESS AFFLUENT COUNTRIES THAT MAY HAVE VOICE WITH RICH OIL PRODUCERS AND TECHNICAL ASSISTANCE COMBINED WITH MAJOR DEVELOPMENT PROJECTS TO OIL RICH COUNTRIES. EVEN WHEN PRESENT CRISIS CEASES, EMBASSY BELIEVES GOJ WILL CONTINUE ITS EFFORTS IN THIS AREA AND INCREASED JAPANESE ECONOMIC AND PERHAPS POLITICAL ACTIVITY IN MIDDLE EAST WILL CONTINUE FOR FORESEEABLE FUTURE.

7. EFFORTS TO DEAL WITH CRISIS: C.(2) REFTEL B OUTLINES PHASE II MEASURES WHICH ARE IN EFFECT UNTIL FEB 1 TO REDUCE ENERGY CONSUMPTION IN JAPAN . PETROLEUM RELATED SEGMENT, BASED ON ADMINISTRATIVE GUIDANCE AND NOT LEGISLATIVE AUTHORITY, CALLS FOR CUTBACKS OF 15 PERCENT OF PLANNED LEVELS FOR BULK OF INDUSTRIAL USERS. HOUSEHOLDS ARE EXEMPT AND SOME OTHER SECTORS ARE ALSO EXEMPT OR SUBJECT TO LOWER CUTBACK RATES. MANDATORY ELECTRIC USE SEGMENT ORDERS REDUCTIONS OF 15 PERCENT OF OCT 1973 CONSUMPTION FOR MAJOR CONSUMERS.

8. NEXT PHASE OF CONTROLS IS SCHEDULED FOR IMPLEMENTATION FEB 1. INDICATIONS ARE THAT BOTH PETROLEUM AND ELECTRIC REDUCTIONS WILL REMAIN AT ABOUT 15 PERCENT LEVEL FOR MOST USERS. HOWEVER, THE THOUSAND LARGEST PETROLEUM CONSUMERS IN JAPAN WILL PROBABLY BE LEGALLY REQUIRED TO SEEK GOJ APPROVAL OF THEIR PETROLEUM CONSUMPTION PLANS. THIS STEP SHOULD INCREASE EFFECTIVENESS OF CONTROLS.

9. ENERGY FACT SHEET, INCLUDING REVISED BALANCE OF PAYMENTS
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PAGE 04 TOKYO 00851 02 OF 02 211138Z

FORECASTS FOLLOWS SEPTEL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, SUPPLIES, INFLATION, RATIONING, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
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Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
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Handling Restrictions: n/a
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